



Policy	Reserves and Surplus Policy (FIN-018)
Approved By:	Council
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**1. PURPOSE**

This Reserves and Surplus Policy has been developed to provide guidelines and direction for the establishment and maintenance of Reserves and Accumulated Surplus to meet the District’s short-term and long-term financial goals. The goal is to maintain a level of financial resources sufficient to protect against reducing service levels or raising taxes and fees due to temporary revenue shortfalls or unpredicted one-time expenditures.

**2. REFERENCE**

This Policy makes reference to the *Community Charter*, the *Local Government Act*, Community Works Gas Tax Agreement, Generally Accepted Accounting Principles (GAAP), and Public Sector Accounting Board (PSAB).

**3. DEFINITIONS**

The following terms used in this Policy are defined as follows:

“**Accumulated Surplus**” means the accumulated excess of revenues over expenditures from prior years which has not been set aside for specific purposes.

“**Annual Budgetary Surplus**” means the dollar value derived from the following formula:

**A minus B minus C minus D minus E**

## Where

**A:** Revenues (not including non-cash revenues such as actuarial adjustments to debt, developer contributed tangible capital assets, and gain on disposal of tangible capital assets)

**B:** Expenses (not including non cash expenses such as amortization, accretion, and loss on disposal of capital asset expenses,

**C:** Net transfers from (to) reserves

**D:** Capital expenditures

**E:** Debt Principal payments

**“Appropriated”** means set aside or allocated for a specific purpose.

**“Reserve Funds”** means funds that are set aside for a specified purpose by council pursuant to subsection 188 (1) of the *Community Charter*. These Reserves are established via District bylaws and are discretionary on the part of council.

**“Reserves”** means all of the District’s Reserve Funds; both statutory and non-statutory whether established by Bylaw or not established by bylaw.

**“Statutory Reserve Funds”** means funds set aside for specified purposes as required by and pursuant to specific legislation. These Reserves are nondiscretionary on the part of Council.

**“Unappropriated Surplus”** means the Accumulated Budgetary Surpluses built up in the District’s various funds that have not been designated for specific uses.

## 4. GUIDING PRINCIPLES

The following principles form the basis for this Policy:

- Follow the legislated financial requirements of the *Community Charter* and *Local Government Act*.
- Maintain a financially viable District that can provide for an adequate level of municipal services.
- Maintain and enhance the fiscal position of the District through sound fiscal management.
- Maintain financial flexibility in order to meet continually changing local and regional economic conditions.
- Ensure the District’s Operating Budget is balanced where revenues are equal to or greater than expenditures.
- Focus on long term sustainable planning.

- Avoid across the board cuts that take fund away from higher priority programs and services along with those of lower priority when making budget reductions.
- Review departmental budgets and service levels for enhanced efficiencies and effectiveness on an annual basis.

## **5. OPERATING AND CAPITAL RESERVE FUNDS**

Pursuant to subsection 188 (1) of the *Community Charter*, Council may, by bylaw, establish a Reserve Fund for a specified purpose and direct that money be placed to the credit of the Reserve Fund. The following Reserve Funds have been established for the purpose(s) so identified:

### **Reserve Funds established by Bylaw:**

#### **5.1 Land Sale Reserve Fund**

The Land Sale Reserve Fund was established pursuant to the statutory requirement that all proceeds from the sale of municipal land be placed to the credit of a special fund as opposed to being treated as current revenue.

There are no bylaw restrictions on the use of monies in the Fund beyond the statutory requirement limiting appropriations to the funding of capital projects. In the past, monies in the Land Sale Reserve Fund have been “invested” in the Municipality’s own projects. For example, money from the Fund has been loaned to the Parks and Recreation Commission, which, in turn, has included the repayment of interest and principal in its operating budget over the term of the loan. In 2016 \$1,702,133 was used to purchase 1538 Monterey Avenue.

#### **5.2 Heritage Reserve Fund**

The principal of the Heritage Reserve Fund represents the net profit from the Municipality’s development of the Wessex Close subdivision in 1980-81. Over and above the statutory requirement that monies in the fund be expended only for the purpose of capital projects, the bylaw establishing the Heritage Reserve Fund provides further that with the exception of interest, no monies may be appropriated from the Fund “save those required for the purpose of land development projects and other capital investments designed to augment the net present value of the principal.”

#### **5.3 Capital Works Reserve Fund**

The primary purpose of the Capital Works Reserve Fund is to provide a means of financing major repairs to or replacement of physical assets without the need for spikes in the tax rate, interruption of the underground infrastructure renewal program, layoffs, or a combination of all three.

There are a number of specifically budgeted transfers to the Fund in the municipal operating budget for each year. The equity in the Fund has also been built up from general revenue surplus, plus interest earned over the years.

The Capital Works Reserve Fund is segregated into a number of sub-accounts, which are directed to specific purposes.

#### **5.4 Village Parking Reserve Fund**

Under the Parking Facilities Bylaw, developers in many situations have the option of paying cash in lieu of providing the required number of off-street parking spaces. Monies paid pursuant to the Parking Facilities Bylaw must be credited to a statutory reserve fund, and originally could only be used for the provision of off-street parking. Provincial legislation now allows these funds to be transferred to the Alternative Transportation Infrastructure Reserve Fund (established August 2008) for the provision of transportation infrastructure that supports walking, bicycling, public transit or other alternative forms of transportation. To date, this fund has been used towards the cost of installing bus shelters.

#### **5.5 Park Land Acquisition Reserve Fund**

Under the *Local Government Act*, an owner of land being subdivided into three or more lots must either provide park land or pay cash in lieu. Such payments must be credited to a statutory reserve fund and may only be used for the purpose of acquiring new park lands.

At present, such funds may only be used for the purpose of acquiring new park lands, although from time to time there has been talk of amending the *Act* to broaden the allowable uses to include the upgrading of existing parks.

#### **5.6 Machinery and Equipment Fund**

The Machinery and Equipment Depreciation Reserve Fund was established to provide for the systematic replacement of vehicles in the Equipment Pool without the need for tax spikes from one year to the next.

The Fund is built up through year-end transfers of the net earnings on the entire fleet – i.e., the total of all Equipment Pool charges minus the vehicle operating and maintenance costs. The latter includes the wages of the three full-time mechanics.

#### **5.7 Fire Machinery and Equipment Fund**

The Fire Machinery and Equipment Depreciation Reserve Fund was established to fund the replacement of existing vehicles and equipment (i.e., it would not be used to augment the existing fleet).

With the exception of a transfer from general revenue surplus which occurred in 2000, this Fund is being built up through annual contributions from the operating budget.

### **5.8 Alternative Transportation Infrastructure**

The Alternative Transportation Infrastructure Reserve Fund was established for the provision of transportation infrastructure that supports walking, bicycling, public transit or other alternative forms of transportation.

### **Reserve Funds not established by Bylaw**

#### **5.9 Tod House Trust**

The Tod House Trust was established to fund repairs to the historic residence at 2564 Heron Street, which used to be jointly owned by the Municipality and the Province. In 2008 the Province gave its share to Oak Bay, but only “for so long as the land is used for the specific purpose of managing the Tod House Heritage Site”. Correspondence with the Province suggests that if the property use were to change, the District will pay to the Province 50% of the market value of the property at the time that its use changed. The Trust is built up from the net rental revenue.

#### **5.10 Legacy Trust**

The Legacy Trust consists of various bequests to the Municipality for specific purposes – i.e. improvements to the Seniors’ Activity portion of the Monterey Centre. The Public Art Fund is also included here.

#### **5.11 Major Crimes Reserve**

The District maintains a Major Crime Reserve (which forms part of the District’s Operating Fund Reserve per 5.12 below). These funds are solely intended to be used for costs associated to major crime investigations and costs which stem from those investigations

It is not practical for specific use of these funds to be approved by Council in advance due to the timeliness, confidentiality and sensitivity of the investigations. The Oak Bay Police department may utilize the major crime reserve under the following circumstances:

- a. Use of the Major Crimes Reserve has been approved in the financial plan bylaw or amendments thereto;
- b. The scope and/or complexity of the investigation is sufficiently large that it was not contemplated within the annual police budget;
- c. There is not sufficient budget remaining in the current year police operating budget to cover the extraordinary costs; and
- d. The extraordinary costs relate to:
  - i. Undercover operations,
  - ii. Wiretap,
  - iii. Surveillance,
  - iv. Forensic specialists,
  - v. Tech analysis,
  - vi. Underwater recovery team,
  - vii. Emergency response team
  - viii. Tactical team,
  - ix. Scene security
  - x. Other costs related to major crimes investigation in the opinion of the Oak Bay Chief Constable.

The Chief or Deputy Chief Constable will provide the Director of Financial Services with the police file number. This file number will be confidential and not available for public release or release under freedom of information.

## **5.12 Operating Fund Reserve**

The District maintains an Operating Fund Reserve composed of seven main balances:

1. Unappropriated General Surplus – this balance is what the general fund budgetary surpluses are housed until allocated by Council.
2. Unappropriated Water Fund Surplus – this balance is where the water fund operating budgetary surpluses are housed unless allocated by Council.
3. Unappropriated Sewer Fund Surplus – this balance is where the water fund operating budget surpluses are housed unless allocated by Council.
4. Climate Action Reserve – this balance is left over proceeds from the Climate Action Revenue Incentive Program grant and the Local Government Climate Action Program. All funds must used to support local government climate initiatives.
5. Covid-19 Restart Grant Reserve – this balance is proceeds from the Covid-19 Restart Grant. The use of these funds are subject to external Provincial restrictions.

6. Financial and Service Level Stability Reserve – this reserve is used to provide funding to maintain existing service levels when temporary economic conditions impair the District’s ability to fund existing services. This reserve can also be used to fund significant non-recurring operating expenses.
7. Council Priority Initiatives Reserve – this reserve was formed to fund Council term priority initiatives that are one-time or infrequent operating expenditures.

## **6. ALLOCATION OF ANNUAL BUDGETARY SURPLUS FUNDS**

The District allocates Unappropriated Surplus balances in its three operating funds (the General Operating Fund, the Sewer Operating Fund, and the Water Operating Fund), for working capital purposes, i.e. to provide for operating expenditures before property taxes and/or user fees are collected. Maintaining minimum working capital levels eliminates or reduces the need to borrow externally and/or internally for operations. It also mitigates volatility in tax and utility rates caused by significant non-recurring operating expenses.

The District may also require emergency funds from time to time, from any one of its Unappropriated Surplus balances, for unforeseen costs. When this occurs, the District needs to rely upon sufficient balances being available in the applicable Operating Fund Reserve area.

Annual surplus within the Water and Sewer funds shall remain as unappropriated for future capital, to fund unexpected and non-recurring operating expenses, or for short-term revenue stabilization.

Annual surplus within the General Operating fund may first be allocated to the Financial and Service Level Stability Reserve (FSLSR) such that a minimum balance of \$500,000 is always maintained. Provided the FSLSR minimum balance is satisfied then the remaining surplus funds can be allocated as follows:

- a) All policing operating surplus may be allocated to the Major Crimes Reserve up to a maximum of \$1.5M.
- b) Council Priority Initiatives Reserve or special projects shall have a target allocation of \$2.5M for each 4 year Council Term.
- c) Parks Recreation and Culture and Building and Planning operating surpluses may be allocated to the FSLSR up to a maximum of \$2.0M.
- d) All remaining surplus funds may be allocated to the Infrastructure Renewal Reserve.
- e) All minimum and maximum thresholds and target allocations cited in this Section shall be adjusted annually, starting January 1, 2024 in accordance

with the published forced growth rate in the District's prior year's Financial Plan document.

## **7. ADMINISTRATION**

### **7.1 Reserve Contributions**

Annual and/or periodic contributions to Reserve Funds shall be specific to each Reserve, as approved by Council through the District's annual financial planning and budgeting process. Annual budgetary reserves shall be allocated by Council following completion and approval of the Financial Statements.

### **7.2 Responsibilities**

The District's Finance Officer shall be responsible for:

- a.** Recommending the necessary contributions and transfers so that the District's Operating/Capital Reserve Funds, Unappropriated Surpluses and Statutory Reserve Funds are maintained in accordance with this Policy;
- b.** Conduct an annual review of all Reserve Funds, Statutory Reserve Funds and Unappropriated Surplus balances and reporting the results of such review to Council; and
- c.** Recommend revisions and amendments to this Policy, as may be required from time to time, as a result of changes in applicable statutes, accounting standards, economic conditions, etc.

### **7.4 Interest**

Reserve Funds and Statutory Reserve Funds shall be paid and allocated interest based on average annual balances and the District's average rate of return on investments.

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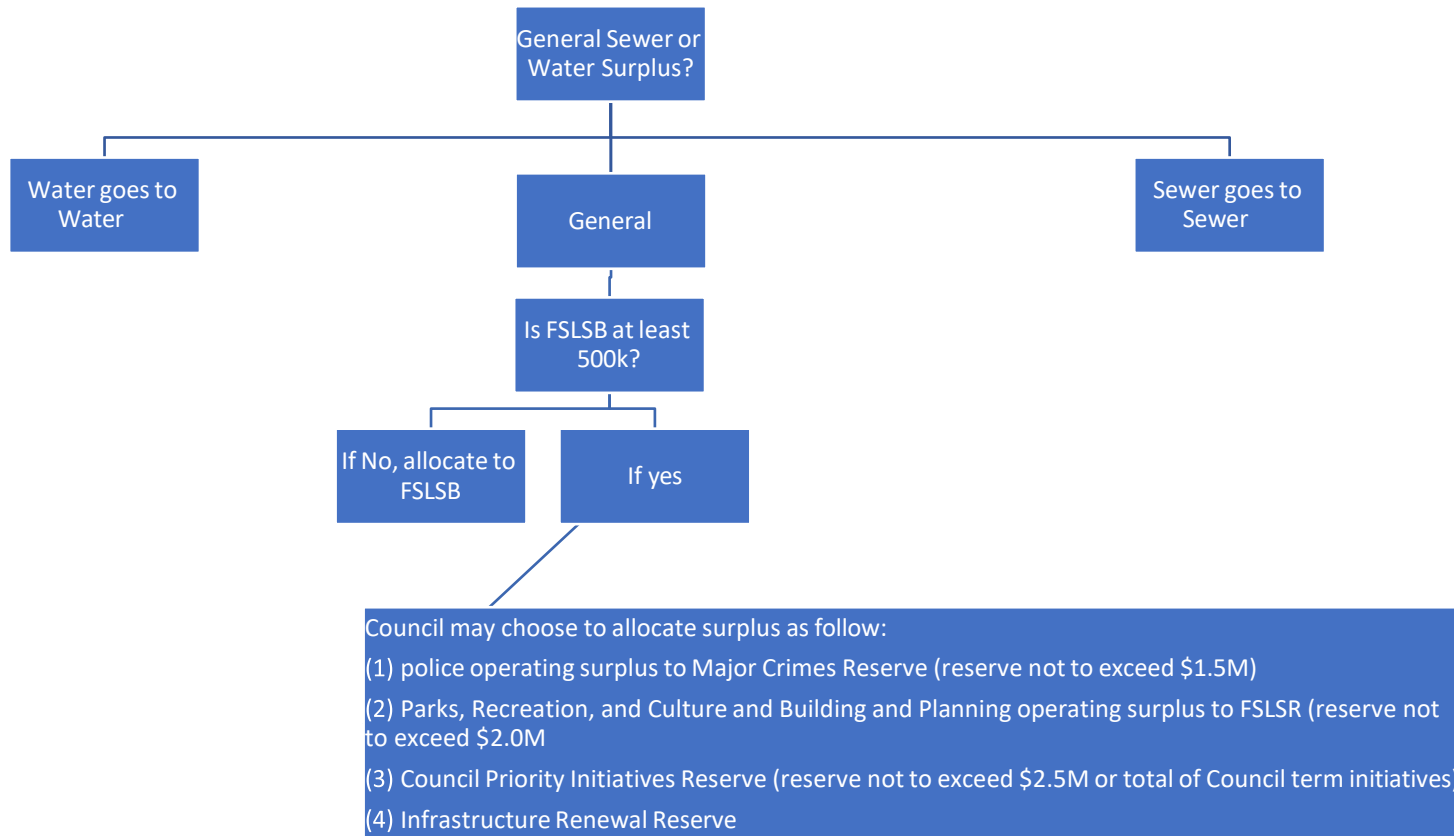
Selina Williams, Chief Administrative Officer

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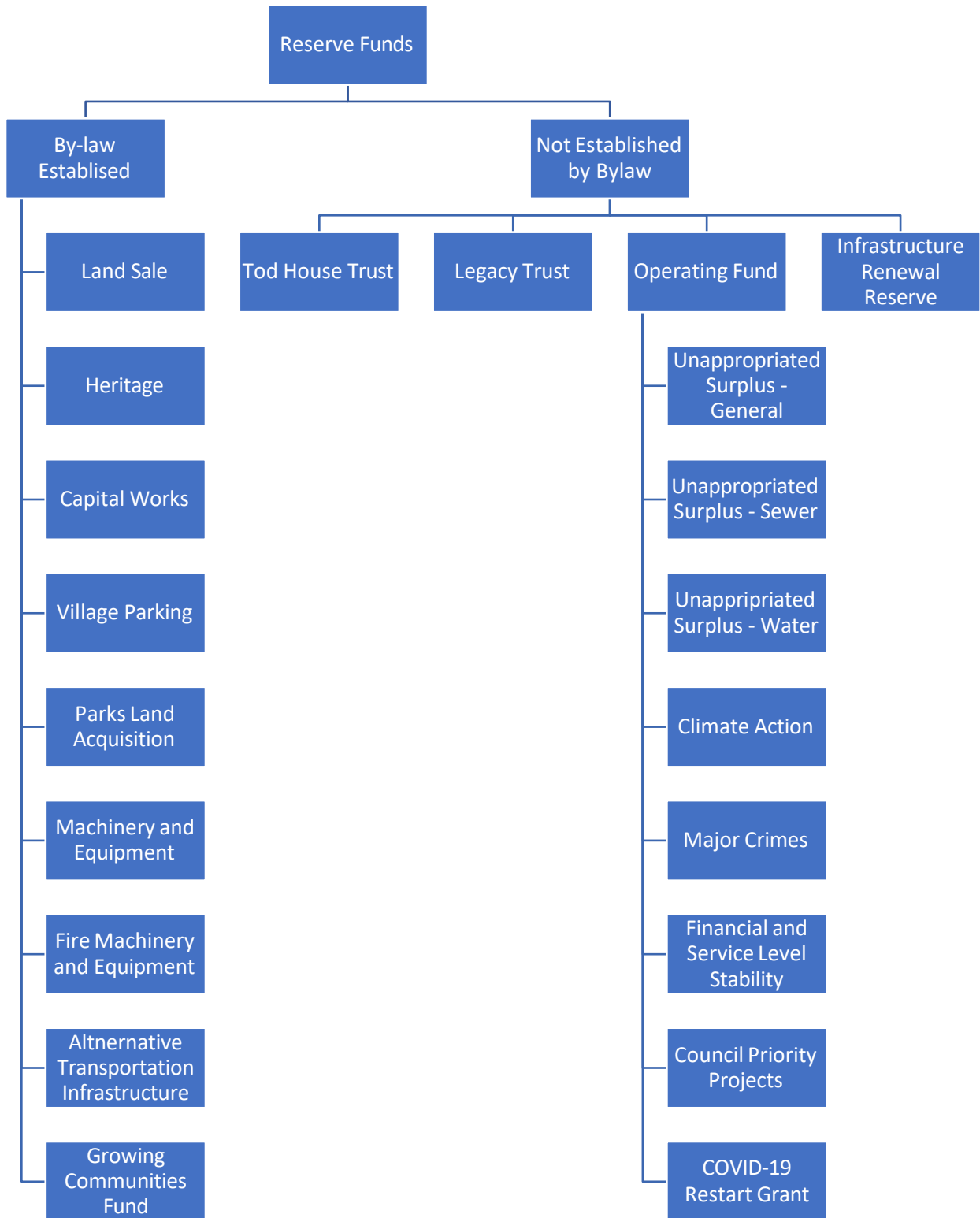
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## Appendix A: Annual Surplus Allocation Decision Tree



## Appendix B: Reserve Structure Diagram



## Appendix C: Additional Resources

Readings of this Policy may benefit from other materials such as:

1. May 9, 2022 Council meeting
2. Reserve Funds Bylaw
3. Note 7 Financial Statements